

# **Audit of USAID/Peru's P.L. 480 Title II Program Results**

**Audit Report No. 1-527-00-002-P  
May 5, 2000**

**Regional Inspector General  
San Salvador**



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

*RIG/San Salvador*

May 5, 2000

## MEMORANDUM

**FOR:** USAID/ Peru Director, Thomas L. Geiger

**FROM:** Acting RIG/A/San Salvador, Steven H. Bernstein

**SUBJECT:** Audit of USAID/Peru's P.L. 480 Title II Program Results  
(Report No. 1-527-00-002-P)

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on the draft report. Your comments on the draft report are included in Appendix II.

This report contains six recommendations for your action. Based on the information provided by the Mission, management decisions have been reached on these recommendations. A determination of final action for these recommendations will be made by the Office of Management Planning and Innovation (M/MPI/MIC) when planned corrective actions are completed.

I appreciate the cooperation and courtesy extended to my staff during the audit.

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## Background

Half of Peru's 25 million people live in poverty and 15 percent live in extreme poverty. In this country of the size of Alaska, USAID/Peru has focused its approximate \$50 million P.L. 480 Title II food program in the rural highland and jungle areas where the levels of extreme poverty are the highest. In fiscal year 1999, the USAID/Peru Title II food program distributed, through four non-profit cooperating sponsors, \$10 million of food commodities to 6,226 communities over the entire range of the country.

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In addition, the Title II program monetized another \$37 million in food commodities, whose proceeds funded a wide range of programs including nutrition, primary child health care, soil conservation, irrigation, and microcredit.

In March 1999, USAID/Peru submitted its annual Results Review and Resources Request (R4). Given the size of the Mission's Title II program and consistent with prior years' practice, the Mission included in the R4 an annex that provided a narrative description highlighting program accomplishments and strategic directions as well as a matrix of 15 Title II performance indicators and results for fiscal year 1998. The results for these performance indicators were drawn from the annual results reports from five cooperating sponsors, i.e., Adventist Development and Relief Agency (ADRA); CARE; Caritas; Proyectos en Informatica, Salud, Medicina, y Agricultura (PRISMA); and TechnoServe.

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## **Audit Objective**

As part of its fiscal year 2000 audit plan, the Office of the Regional Inspector General/San Salvador performed an audit to answer the following audit objective:

Are P.L. 480 Title II programs in Peru achieving their planned objectives?

Appendix I describes the audit's scope and methodology.

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## **Audit Findings**

### **Are P.L. 480 Title II programs in Peru achieving their planned objectives?**

We are unable to express an opinion whether Title II programs in Peru were achieving their planned objectives due to problems we found with the accuracy of results data for the performance indicators tested. In all, the Mission's R4 Title II annex included 15 performance indicators which encompassed 65 distinct data results from the five cooperating sponsors. In collaboration with the Mission's Title II staff, we decided to focus our testing on four performance indicators that encompassed 15 distinct data results. However, source documentation showed that 9 of these 15 reported results were inaccurate. In addition, the Mission has not generally assessed data sources and methodologies of their Title II performance indicators. Consequently, we could not with confidence assert whether the Mission has been achieving its planned objectives based on reported results in its annual R4.

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## Reported Results Were Inaccurate

Federal laws and regulations require federal agencies to develop and implement internal management control systems that: (1) compare actual program results against those anticipated; (2) provide for complete, reliable, and consistent information, and (3) ensure that performance information is clearly documented and that the documentation is readily available for examination.

Specifically, in regard to accuracy, for the purposes of this audit we employed two thresholds. First, for transcription error, we used an accuracy threshold of 2 percent for the comparison of source documentation to the reported result. Second, for computational error, we employed an accuracy threshold of 5 percent for computations of results. Using these thresholds, 9 of the 15 reported results were inaccurate. These inaccurate results were due, in part, to a lack of clear Mission procedures. A description of these cases is as follows.

One performance indicator was *children graduating from feeding programs* with distinct data results from three cooperating sponsors. One of these reported results was inaccurate.

- The 1998 reported result from Caritas was 33,228 children which was based on 72,486 children enrolled multiplied by a graduation rate of 45.84%. However, both figures were inaccurate. Caritas determined that, due to the carry-over of some records from the previous year, the number of enrolled children should have been 70,335—a small error. However, the graduation rate was based on data from only 4 out of 33 dioceses due to the lack of available validated local data. The basis of the original computation of 45.84% was lost due to records being overwritten in the computer. Nevertheless, when additional data from two more dioceses was added to the updated data from the other four dioceses, the graduation rate changed to 41.45%. Caritas had no analytical basis for using data from four or six dioceses to represent the entire program.

One performance indicator was *hectares incorporated under improved production technologies* with distinct data results from five cooperating sponsors. Three of these reported results were inaccurate.

- The 1998 reported result from CARE was 2,628 hectares. However, supporting documentation at CARE showed that 2,528 hectares were incorporated improved production technologies. The difference of 100 hectares was a transcription error of 4 percent.
- The 1998 reported result from Caritas was 234 hectares. However, supporting documentation at Caritas showed that 40 hectares were

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incorporated improved production technologies. The difference of 194 hectares was an error of 83 percent.

- The 1998 reported result from PRISMA was 2,304 hectares. However, the PRISMA annual results report showed that the Title II result was 1,089 hectares, whereas the 2,304 hectares represented the total program funded by additional sources. The fact that 1,089 hectares was the appropriate figure to cite is further confirmed by the fact that the fiscal year 1998 target of 765 hectares was based on only the Title II component and the reported result for the prior fiscal year (1997) was also limited to the Title II component. The difference of 1,215 hectares was an error of 53 percent.

One performance indicator was *value of microcredit loan portfolio* with distinct data results from four cooperating sponsors. Three of these reported results were inaccurate.

- The 1998 reported result from ADRA was \$420,000. However, supporting documentation at ADRA showed that \$85,788 was the actual value of the microcredit loan portfolio. ADRA had calculated the result using loans disbursed during the fiscal year without taking account repayments. In addition, it had included loans from a non-Title II program. This performance indicator is explicitly defined as the value of outstanding loans. The difference between the reported result and the documented result of \$334,212 was an error of 80 percent.
- The 1998 reported result from PRISMA was \$1,224,439, which comprised the bulk (59 percent) of the total reported result for this performance indicator. However, the PRISMA annual results report showed that the Title II result was \$819,119, whereas the \$1,224,439 represented the total program funded by additional sources. The fact that \$819,119 was the appropriate figure to cite is further confirmed by the fact that the fiscal year 1998 target of \$764,248 was based on only the Title II component and the reported result for the prior fiscal year 1997 was also limited to the Title II component. The difference of \$405,320 was an error of 33 percent.
- The 1998 reported result from TechnoServe was \$40,773. However, TechnoServe had calculated the result based on the amount of funds transferred to three TechnoServe-affiliated associations for the purpose of microcredit loans. This performance indicator is explicitly defined as the value of outstanding loans. Furthermore, even the amount of funds transferred—which TechnoServe used as the documented basis for the result—was \$68,305, a difference of \$27,532 or 68 percent.

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One performance indicator was *delinquency rates* with distinct data results from three cooperating sponsors. Two of these reported results were inaccurate and a third was not applicable.

- The 1998 reported result from ADRA was 4.0 percent. However, the reported result was derived from an urban microcredit loan program not funded by Title II and also based on a preliminary estimate that later changed. The actual result is unknown.
- The 1998 reported result from PRISMA was 18.5 percent. However, the PRISMA annual results report showed that the Title II result was 1.9 percent, whereas 18.5 percent represented the total program funded by additional sources. The fact that 1.9 percent was the appropriate figure to cite is further confirmed by the fact that the fiscal year 1998 target of 5.0 percent was based on only the Title II component and the reported result for the prior fiscal year 1997 was also limited to the Title II component. The difference of 16.6 percent was an error of 90 percent.
- The 1998 reported result from CARE was 0.0 percent compared with a fiscal year 1998 target of 2.0 percent. However, supporting documentation at CARE showed that the cooperating sponsor had not disbursed any loans until August 1998. Consequently, none of the microcredit loan recipients were required to make any loan payments by the end of the fiscal year—September 30<sup>th</sup>. Therefore, the reported result of 0.0 percent was misleading because it was not applicable.

The inaccuracy of the reported results was due, in part, to a lack of clear procedures and methodology to assess the quality of data sources. Supporting documentation at the Mission for all the 15 indicators was limited to the annual results report from each of the five cooperating sponsors which provided figures in performance tables. However, the Mission's Title II coordinators were not familiar with the calculation methodologies employed by the cooperating sponsors. Additionally, the Mission's Title II management and staff have not generally assessed data sources and methodologies. This later aspect is discussed in the following section.

The USAID Center for Development Information and Evaluation (CDIE) issued TIPS Number 12 ("Guidelines for Indicator and Data Quality") in 1998. It notes that sound decisions by USAID management require accurate, current, and reliable information. However, without reliable performance data, decisionmakers have little assurance whether an operating unit exceeded or fell short in achieving its program objectives and related targets. In our opinion, the problems cited in this report with the accuracy of performance indicators and results reporting impair USAID/Peru's and USAID management's ability to (1) measure progress in achieving program

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objectives and (2) use performance information in budget allocation decisions.

In regard to ensuring that Title II performance data in its R4 are supported, accurate, and complete, the Mission should review, for the R4 prepared in 2001, all Title II indicator results for support, accuracy, and completeness prior to issuance.

*Recommendation No. 1: We recommend that USAID/Peru ensure that the Title II performance results in its R4 prepared in 2001 are supported, accurate, and complete.*

USAID guidance for the last two fiscal years' R4s encouraged Missions to make use of comments for various reasons including significant data limitations and their implications for measuring performance results against anticipated performance targets. However, the Mission did not reveal data quality limitations in its R4 for Title II performance indicators.

For the performance indicator, *children graduating from feeding programs*, the 1998 reported result from PRISMA was 152,436 children, which comprised the bulk (72 percent) of the total reported result for this performance indicator. However, due to the lack of validated local data that is available by the time that the R4 is prepared, PRISMA used an alternative complicated formula for estimating the number of children graduating. The calculation used as a starting point the programmed number of metric tons of food to be distributed during the fiscal year. (This figure came from a July 1997 document, before the start of fiscal year 1998.) This was converted to rations per month or families served by dividing total metric tons of food successively by ration size and then again by the 12 months in a year. Given the rations per month which was assumed to be families served, PRISMA used three more conversion factors (percentage of families actually attending, percentage graduation rate, and number of children enrolled per family) to derive consecutively total number of families attending in one year, total number of children enrolled, and finally total number of children graduating. PRISMA officials noted that all three conversion factors are based on data from the fiscal year which is available for verification. However, aside from its complexity, neither the Mission nor PRISMA has employed studies to determine if the calculation methodology is accurate. PRISMA officials believe that the estimated result is within 5 percent of actual results, but no studies are available to document this assertion. It may well be that this estimating methodology is the best and most reasonable source for computing the result. Nevertheless, the Mission should assess the data's sources and methodology as explained later. In addition, given the inherent limitations in the quality of data, the Mission should reveal this aspect within the R4.

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*Recommendation No. 2: We recommend that USAID/Peru fully disclose in its R4 prepared in 2001 data limitations and the resulting implications for assessing the measurement and achievement of performance targets for each Title II performance indicator.*

USAID's Automated Directive System (ADS) E203.5.5 states that "The Agency and its operating units shall define performance indicators for which quality data are available" and also "If data for a performance indicator prove to be unavailable or too costly to collect, the indicator may need to be changed." With regard to the performance indicator, *children graduating from feeding programs*, two of the three cooperating sponsors providing data did not have available data to report actual results. In one case (Caritas), the reported result was inaccurate and in the other case (PRISMA), the cooperating sponsor employed an estimating methodology to calculate a result.

*Recommendation No. 3: We recommend that USAID/Peru ensure that quality data is available for its Title II performance indicators at the time the R4 is prepared and consider dropping indicators from its R4 for which such data is not available.*

### **Performance Indicators' Data Were Not Assessed**

ADS E203.5.5e states that "Data quality will be assessed as part of the process of establishing performance indicators and choosing data collection sources and methods. Data quality will be reassessed as is necessary, but at intervals of no greater than three years." The USAID TIPS Number 12 provides further guidelines for assessing or reassessing data quality associated with performance indicators. It states that it is important to take a critical look at performance measurement systems and data sources from time to time to make sure that indicators are still measuring what we think they are measuring and that data are being collected in the way that we intend. Reassessments should be systematic, documented, and cover all performance indicators.

Due to the staff not being familiar with the ADS requirements, the Mission's Title II office has not systematically assessed data quality associated with its performance indicators. It did contract for an independent evaluation conducted in 1998 that, in essence, served as an assessment of the performance indicators for micro credit programs for two cooperating sponsors. Otherwise, the Mission had not assessed its Title II performance indicators. Additionally, USAID/Peru has to be concerned with consistency of data collection methodologies. The Title II performance indicators gather data from up to five cooperating sponsors against the same performance indicator definition. Consequently, consistency of methodology is not only



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an issue from year to year but also from different data sources within the same reporting period. For example, for the performance indicator, *value of microcredit loan portfolio*, ADRA and TechnoServe used incorrect and different methodologies from CARE.

*Recommendation No. 4: We recommend that USAID/Peru ensure that all Title II performance indicators in its R4 prepared in 2001 are assessed (including consistency of methodologies across cooperating sponsors) and at regular intervals thereafter (but no less than every 3 years); or fully disclose in the R4: (1) why indicators were not assessed, (2) the resulting limitations in the confidence in data quality and the implications for assessing the measurement and achievement of performance targets, and (3) a time frame for assessing the performance indicator.*

#### **R4 Title II Annex Did Not Show Targets**

ADS 203.4 defines a performance target as the specific and intended result to be achieved within an explicit timeframe and against which actual results are compared and assessed. However, the fiscal year 1998 (and fiscal year 1997 as well) R4 Title II annex did not have a column showing targets with which to directly compare actual results. The narrative portion of the annex discusses results versus targets in spite of the fact that the targets can only be seen by referring to the previous year's R4 document.

*Recommendation No. 5: We recommend that USAID/Peru include in its Title II annex a targets column in its R4 prepared in 2001 to allow the direct comparison of results with targets.*

#### **Other Issues**

The Mission's status reports of losses and claims for the four cooperating sponsors are well organized, with breakouts by cooperating sponsor, fiscal year quarter, claim number, commodity, weight, value in dollars, type of loss, status, and amount recovered. Underlying supporting files are also well organized. As required, claims recovery process is working including repayments of dollar checks submitted to the U.S. Treasury. The status reports and follow-up process meet the requirements of Regulation 11 and BHR cable guidance. Nevertheless, the Mission has a large four-year backlog in adjudicating claims/losses. The Mission has identified that the value of pending claims for all four cooperating sponsors for the four fiscal years (1996 to 1999) is \$412,581 for 239 individual claims.

*Recommendation No. 6: We recommend that USAID/Peru ensure that four-year backlog of pending claims needing resolution is completed and made current.*

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In addition to the above issues, we identified other findings which were not significant to the audit objective and, thus, are not included in this audit report. These findings were communicated to USAID/Peru by a separate memorandum dated May 5, 2000.

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**Management  
Comments and  
Our Evaluation**

USAID/Peru agreed with the report and is planning to implement each of the six report recommendations. Based on the information provided by the Mission, management decisions have been reached on Recommendation Nos. 1, 2, 3, 4, 5, and 6.

## **Scope and Methodology**

### **Scope**

The Office of the Regional Inspector General/San Salvador conducted an audit, in accordance with generally accepted government auditing standards, to determine if the P.L. 480 Title II programs in Peru are achieving their planned objectives. The audit was conducted at USAID/Peru and five cooperating sponsors (Adventist Development and Relief Agency, CARE, Caritas, PRISMA, and TechnoServe) from October 28, 1999 through February 10, 2000.

In addition to the Mission and the five cooperating sponsor headquarters in Lima, we also visited cooperating sponsor regional or subrecipient offices (and four food warehouses) in Ayacucho, Cuzco, and Juliaca for ADRA; Piura and Cuzco for CARE; Iquitos, Piura, and Tarapoto for Caritas; and Puno for TechnoServe. We also visited 37 project sites (fish pond farm, irrigation channels, children and pregnant mothers nutrition and feeding programs, road building, guinea pig farm, coffee plant nursery, potable water construction, health post construction, chicken farm, endangered tree management, water reservoir rehabilitation, greenhouses, goat farm, and community food warehouses) in 18 communities. Due to both security and logistical restrictions, we could not visit regional offices and community projects according to a random sampling. Nevertheless, our site visits were designed to provide coverage according to several variables including the northern and southern sections of the country, the rural highlands and the jungle (the two principal areas of Title II programs due to the extreme poverty), and different cooperating sponsors—especially ADRA and Caritas who will continue a high level of direct food distribution.

### **Methodology**

In answering the audit objective, we interviewed officials as well as reviewed and tested documentation at USAID/Peru and the five cooperating sponsors. Such documentation included Mission staffing and organization; maps; annual Mission R4 reports; Mission internal control assessments; USAID Regulation 11; USAID, Bureau, and Mission R4 guidance including USAID Center for Development Information and Evaluation (CDIE) Tip Series Numbers 6, 7, 8, and 12; Bureau guidance for cooperating sponsor annual results reports, historical funding and food distribution data, Mission ledger for tracking food losses and claims; independent evaluations during 1998 and 1999; annual cooperating sponsor results reports; annual cooperating sponsor monitoring and evaluation plans; quarterly reports (including losses) provided by four non-governmental organizations for fiscal year 1999, the most recent complete fiscal year; and numerous other internal control documents used by the cooperating sponsors to track the warehousing and distribution of

commodities. We also reviewed applicable prior Office of Inspector General audit reports and summaries and audit reports of cooperating sponsors.

The Mission's R4 Title II annex included 15 performance indicators which encompassed 65 distinct data results from the five cooperating sponsors. At the beginning of the audit fieldwork, we devised a methodology, in collaboration with the Mission's Title II staff, to focus our testing on four performance indicators that encompassed 15 distinct data results. Seven criteria were used to determine which performance indicators were reviewed.

- First, does the performance indicator relate to malnutrition or household revenues which, according to the R4 prepared in 1999, will be the future common impact indicators in selected communities for each of the cooperating sponsors?
- Second, is the performance indicator reported by most of the cooperating sponsors (three or more) and is the performance indicator reported by more cooperating sponsors providing a greater cross-section of reporting?
- Third, is the performance indicator unidimensional, measuring just one data element?
- Fourth, does the indicator measure program results as opposed to participation or outputs?
- Fifth, does the performance indicator measure activities which currently represent the principal components of the Title II program?
- Sixth, does the performance indicator measure activities which may continue to be the principal components of the Title II program?
- Seventh, does the performance indicator measure the sustainability of the program?

In assessing accuracy, we employed two materiality thresholds. First, for transcription error, we used an accuracy threshold of 2 percent for the comparison of source documentation to the reported result. Second, for computational error, we employed an accuracy threshold of 5 percent for computations of results. Our review did not assess several aspects of the Mission's Title II performance indicators including: (1) the development or supporting documentation of targets, (2) the accuracy of baseline data, (3) the consistency of reported results methodologies across different fiscal years, and (4) results reported in the narrative portion of the R4.

We also reviewed applicable internal controls to obtain a sufficient understanding of the design of relevant internal control policies and procedures. The relevant internal controls were limited to the Mission's and cooperating sponsors' systems for Title II food distribution and the Mission's Title II R4 results reporting.




U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

**MEMORANDUM**

March 23, 2000

**TO:** Timothy E. Cox  
RIG/A/San Salvador

**FROM:**   
Thomas L. Geiger, Director  
USAID/Peru

**SUBJECT:** Audit of USAID/Peru's P.L. 480 Title II Program Results  
(Report No. 1-527-00-xxx-P)

Thank you for the audit report that is the subject of this memorandum. USAID/Peru agrees with the report as drafted and electronically submitted to us on March 17, 2000. The following are the actions planned by USAID/Peru to implement each recommendation of the subject report.

Recommendation No. 1: We recommend that USAID/Peru ensure that the Title II performance results in its R4 prepared in 2001 are supported, accurate, and complete.

**Action Planned by USAID/Peru:** Following available guidelines (such as CDIE issued TIPS Number 12), and prior to issuing the R4 report to be prepared in 2001, USAID/Peru will review all the FY 2000 results submitted by the Title II cooperating sponsors for the Title II R4 annex to ensure that they are supported, accurate, and complete.

Recommendation No. 2: We recommend that USAID/Peru fully disclose in its R4 prepared in 2001 data limitations and the resulting implications for assessing the measurement and achievement of performance targets for each Title II performance indicator.

**Action Planned by USAID/Peru:** If, as a result of the assessment of data quality, it is determined that there are inherent limitations in the quality of data which USAID/Peru wishes to present in the R4, USAID/Peru will reveal these limitations and their resulting implications for assessing the measurement and achievement of performance targets for each Title II performance indicator to be reported in the Title II annex of the R4 prepared in 2001.

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Timothy E. Cox, RIG San Salvador

March 23, 2000

Recommendation No. 3: We recommend that USAID/Peru ensure that quality data is available for its Title II performance indicators at the time the R4 is prepared and consider dropping indicators from its R4 for which such data is not available.

**Action Planned by USAID/Peru:** USAID/Peru will drop any indicator from its R4 prepared in 2001, for which quality data are not available, unless the indicator(s) has limitations which USAID/Peru wishes to report in compliance with Recommendation No.2.

*Recommendation No. 4: We recommend that USAID/Peru ensure that all Title II performance indicators in its R4 prepared in 2001 are assessed (including consistency of methodologies across cooperating sponsors) and at regular intervals thereafter (but no less than every 3 years); or fully disclose in the R4 (1) why not, (2) resulting limitations in the confidence in data quality and the implications for assessing the measurement and achievement of performance targets, and (3) a time frame for assessing the performance indicator.*

**Action Planned by USAID/Peru:** Using available guidelines (such as TIPS Number 12), USAID/Peru will undertake an assessment of all Title II indicators reported in the R4 annex, prior to issuance of the R4 in 2001. In the event that the assessment is not done for any indicator, the R4 prepared in 2001 will indicate the reasons why not, resulting limitations, and a time frame for completing the assessment of the indicator(s) in question.

Recommendation No. 5: We recommend that USAID/Peru include in its Title II annex a targets column in its R4 prepared in 2001 to allow the direct comparison of results with targets.

**Action Planned by USAID/Peru:** As it has done in the R4 prepared in 2000, USAID/Peru will include a targets column in the R4 to be prepared in 2001, to allow the direct comparison of results with targets.

Recommendation No. 6: We recommend that USAID/Peru ensure that four-year backlog of pending claims needing resolution is completed and made current.

**Action Planned by USAID/Peru:** USAID/Peru will resolve the backlog of pending claims of commodity losses and claims.

USAID/Peru will coordinate with M/MPI the specific actions to be taken, and how they are completed to resolve each recommendation.